

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MUSKEGON COUNTY ROAD COMMISSIO	County MUSKEGON
Fiscal Year End 09/30/06	Opinion Date 12/1/06	Date Audit Report Submitted to State 12/19/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Not required	
Other (Describe)	<input type="checkbox"/>	Not required	
Certified Public Accountant (Firm Name) BRICKLEY DELONG		Telephone Number (231) 726-3157	
Street Address 500 TERRACE PLAZA P.O. BOX 999		City MUSKEGON	State MI
		Zip 49443	
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> for Brickley DeLong, PLC		Printed Name TIMOTHY D ARTER	License Number 10253

Muskegon County Road Commission

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended September 30, 2006

Muskegon County Road Commission

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MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

Our discussion and analysis of the Muskegon County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements, government-wide statements and fund statements.

REPORTING THE ROAD COMMISSION AS A WHOLE

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements mentioned above, report the Road Commission's net assets and how they changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads and changes in the law related to gas taxes and their distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased approximately 1.4% from \$59,615,743 to \$60,426,107 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

Capital assets increased by \$1,358,884 in 2006. Capital purchases for 2006 were greater than the annual depreciation expense generated on the assets. Other liabilities increased by \$612,861 in 2006. The primary reason for the increase was a difference in the amount of accounts payable outstanding at year end due to the number of projects that were active in late September.

Net assets are as follows:

	2006	2005
Assets		
Current and other assets	\$ 10,010,965	\$ 10,124,183
Capital assets	55,402,008	54,043,124
Total assets	65,412,973	64,167,307
Liabilities		
Long-term liabilities outstanding	1,925,062	2,102,621
Other liabilities	3,061,804	2,448,943
Total liabilities	4,986,866	4,551,564
Net assets		
Invested in capital assets, net of related debt	54,077,922	54,105,564
Restricted	6,348,185	5,510,179
Total net assets	\$ 60,426,107	\$ 59,615,743

Change in Net Assets

- **Federal Aid** – The Road Commission budgeted \$1,281,296 for five improvement projects that qualified for federal aid for the fiscal year 2005/2006. Only two of the projects were completed during this year. Due to several delays in the process, the other three projects were started late in our construction season and the bulk of the federal aid attributable to these projects will be realized in the 2006/2007 fiscal year.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

- **State Aid** – The main source of state aid that the Road Commission receives comes from the Michigan Transportation Fund (MTF). The Road Commission's allotment from MTF declined by 2% this year. Several factors have contributed to the reduction in this funding source. As the fuel prices soar there is a decrease in the number of gallons sold. Unlike the revenue from sales tax that increases as the price per gallon increases, the fuel tax that we rely on is a flat rate tax. Therefore, as the number of gallons of fuel sold decreases so does MTF revenue. Also mandated fuel economy impacts the number of gallons sold. The wear and tear on our roadways still occurs but there is less funding in which to make repairs.
- **Charges for Services** – The significant increase in this funding source is due to a major project that the Road Commission partnered with a township to accomplish.
- **Investment Earnings** – Favorable rates coupled with fairly stable investment balances continue to support the increase in this funding source.
- **Reimbursable Services** – This is the expense side of the charges for services revenue account. The increase is attributable to the same township project mentioned above.

A summary of changes in net assets are as follows:

	2006	2005
Revenues		
Program revenues		
Licenses and permits	\$ 56,198	\$ 60,350
Federal aid	653,200	1,476,073
State aid	9,449,647	9,953,836
Contributions from local units	533,238	395,751
Charges for services	2,811,386	2,059,004
Investment earnings	329,033	162,712
General revenues		
Gain on disposal of capital assets	15,868	23,682
Other	38,236	25,059
Total revenues	13,886,806	14,156,467
Expenses		
Primary roads	5,882,378	5,999,665
Local roads	3,671,983	3,665,778
State trunkline	1,954,361	1,826,519
Net administrative	391,479	521,139
Reimbursable services	1,116,273	360,957
Interest on long term debt	59,968	57,969
Total expenses	13,076,442	12,432,027
Change in net assets	810,364	1,724,440
Net assets at beginning of year	59,615,743	57,891,303
Net assets at end of year	\$ 60,426,107	\$ 59,615,743

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the General Operations Fund decreased by \$723,489, as compared to a decrease of \$1,569,833 in the prior year. The Road Commission had originally budgeted to use more of the fund balance this year but concern over the actual and projected decline in revenues prompted the Board and Managing Director to defer a major road project to the next fiscal year.

Total operating revenues were \$13,886,806, a decrease of \$269,661 as compared to last year. Several key factors contributed to this difference. As previously noted, federal aid revenue was less than budgeted by \$823,000 due to a delay in three projects shifting the bulk of the project's revenue and expense into the 2006/2007 fiscal year. That reduction was partially offset by the increases in charges for services and interest income.

Total expenditures were \$14,610,925, a decrease of \$1,116,005 compared to last year. As noted above, the concern over declining revenues caused the Road Commission to defer or narrow the scope of scheduled projects.

A summary of changes in the General Operations Fund are as follows:

	2006	2005
Revenues		
Licenses and permits	\$ 56,198	\$ 60,350
Federal aid	653,200	1,476,073
State aid	9,449,647	9,953,836
Contributions from local units	533,238	395,751
Charges for services	2,811,386	2,059,004
Interest income	329,033	162,712
Other revenue	54,104	48,741
Total revenues	13,886,806	14,156,467
Expenses		
Public works	14,164,538	14,927,575
Capital outlay (net)	182,257	525,943
Debt service	263,500	272,782
Total expenses	14,610,295	15,726,300
Net change in fund balance	(723,489)	(1,569,833)
Fund balance at beginning of year	7,653,927	9,223,760
Fund balance at end of year	\$ 6,930,438	\$ 7,653,927

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditure requests throughout the year.

Amendments totaling \$964,048 were made to the original budgeted revenues during the 2005/2006 fiscal year increasing the final budgeted revenues to \$13,995,844. Revenues originally are conservatively forecasted as many factors effect the motoring public's consumption of fuel and vehicle purchases and thus impact the revenues generated by fuel and license sales. These budget changes were made to reflect the estimated impact of many situations that occurred during the year. The investment earnings budget was increased to reflect the rising interest rates. The MTF revenues budget was increased because revenues, while still below last year's balance, did not drop as much as originally anticipated. The federal aid budget was decreased as it became clear that all the budgeted projects were not going to progress as far as originally forecasted. The actual revenues recognized for the year were less than the final amended budget by \$109,138.

The final amended expenditures budget for the year ended September 30, 2006 was \$205,500 higher than the original budget. The actual expenditures for the year were less than the final amended budget by \$608,805. When the budget adjustments are prepared, certain assumptions are made about the status of project costs and revenues through the end of the fiscal year. These projections are affected by factors such as weather conditions (favorable or adverse), material availability and various conditions beyond our control or planning.

This year adverse weather conditions during September changed the projected status considerably thus resulting in fewer project costs than anticipated as projects were delayed until the next fiscal year.

Despite many adjustments throughout the fiscal year and particularly late in the year to the scope and number of projects that we were able to accomplish, we did manage to complete the year within the perimeters that we had budgeted. There were no negative budget variances in any of the expenditure categories that the Road Commission budgets.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	2006	2005
Capital assets, not being depreciated		
Land and improvements	\$ 20,167,237	\$ 18,821,714
Construction in progress	200,457	339,096
Total capital asset, not being depreciated	20,367,694	19,160,810
Capital assets being depreciated		
Buildings and improvements	3,896,421	3,896,421
Road equipment	8,969,708	8,428,804
Other equipment	2,959,727	2,900,363
Infrastructure and improvements	57,364,812	55,099,552
Total capital assets being depreciated	73,190,668	70,325,140
Less accumulated depreciation	(38,156,354)	(35,442,826)
Total capital assets, being depreciated, net	35,034,314	34,882,314
Total capital assets, net	\$ 55,402,008	\$ 54,043,124

Current year's major additions included the following:

Bridge replacements and repairs	\$ 1,496,911
Various reconstruction / resurfacing projects	2,092,313
Trucks and equipment	907,135

Additional information on capital assets can be found in note D of the notes to financial statements.

Debt

As of September 30, 2006, the Road Commission had \$1,925,062 in long-term debt outstanding. This is a decrease of \$177,559, which is due to normal debt repayments. The long-term debt outstanding is comprised of Michigan Transportation Fund bonds of \$1,610,127 and compensated absences of \$314,935.

Additional information on long-term debt can be found in note F of the notes to the financial statements.

MUSKEGON COUNTY ROAD COMMISSION

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The proposed budget for the 2006/2007 fiscal year anticipates perhaps the most ambitious preservation and rehabilitation program in the Road Commission's history. The opportunity that we have for the upcoming year is bittersweet. We are excited that due to several funding windfalls we will have the opportunity to truly make many worthwhile and needed improvements, but discouraged that it is in all probability a fluke, a one time offer unless significant changes are made in our funding formula. The scope of the upcoming budget shows what can be done when the proper funding is available and we believe that it showcases our abilities.

The 2006/2007 budget proposes to expend \$5.25 million dollars for overlay and rehabilitation projects on 34 miles of roadway. Typically, with our regular funding we are only able to improve 7 – 8 miles. The budget also includes funding for 75 miles of chip seal preservation to the primary road system.

The scope of the proposed budget was made possible by several factors. Over the last couple of years we have made changes throughout the organization resulting in a more cost efficient operation. The changes include the elimination of several staff positions, downsizing the number and size of fleet vehicles, more cautious use of overtime and various other improvements that freed up more money to fund road improvements. In addition, we were able to procure and maximize an exceptional amount of outside funding. This budget includes utilizing a combination of funding from Federal HPP (with matching funds from the Governor's Local Jobs Today program), Urban and Rural STP, Federal Forest and the Road Commission's fund balance.

The above opportunities will allow for a very productive year but the underlying funding problems still exist and there does not appear to be a solution on the horizon. We encourage our partner townships and County officials to assist us in convincing the legislature to deal with the long-term under funding of the public highway system through the MTF funding mechanism and seeking alternative funding methods.

In addition to declining revenues, the proposed and future budgets are at risk due to inflationary pressures beyond the Road Commission's control. In the current year, we had to adjust the scope and number of projects due to extremely large increases in many of the items that we use for our most basic functions. Fuel for the fleet in November 2005 was up \$33,000 over the previous year. Centerline painting and edge striping bids increased by 50% and asphalt prices have risen 25%, to name just a few.

In many respects, the 2006/2007 budget represents the level of work that needs to be consistently performed each year to provide motorists a decent system of public roads. Unfortunately, we are only able to propose the level of work outlined in the new budget because of funding anomalies that in all probability will not recur in the future.

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department at the Muskegon County Road Commission administrative offices at 7700 East Apple Avenue, Muskegon, Michigan 49442.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 1, 2006

Board of County Road Commissioners
Muskegon County Road Commission
Muskegon, Michigan

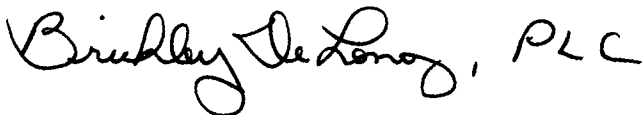
We have audited the accompanying financial statements of the Muskegon County Road Commission, a component unit of the County of Muskegon, as of and for the year ended September 30, 2006, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskegon County Road Commission, as of September 30, 2006, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - vii and 21 - 22 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Muskegon County Road Commission's basic financial statements. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Muskegon County Road Commission
STATEMENT OF NET ASSETS
September 30, 2006

ASSETS	
CURRENT ASSETS	
Cash and investments	\$ 5,929,494
Accounts receivable	
State trunkline maintenance	317,032
State Department of Transportation	
Michigan Transportation Fund	1,559,124
Other	46,603
Due on county road agreements	338,697
Other	61,607
Inventories	
Road materials	886,258
Equipment materials and parts	351,776
Prepaid items	<u>205,610</u>
Total current assets	9,696,201
NONCURRENT ASSETS	
Restricted assets	286,041
Capital assets, net	
Nondepreciable	20,367,694
Depreciable	35,034,314
Bond issue costs, net	<u>28,723</u>
Total noncurrent assets	<u>55,716,772</u>
Total assets	65,412,973
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	2,116,323
Accrued liabilities	71,450
Advances	
State trunkline	
Equipment purchase	247,061
Maintenance	141,545
Other	25,000
Deferred revenue - forest roads	460,425
Bonds payable - due within one year	200,000
Compensated absences - due within one year	<u>215,000</u>
Total current liabilities	3,476,804
NONCURRENT LIABILITIES	
Bonds payable - less amounts due within one year	1,410,127
Compensated absences - less amounts due within one year	<u>99,935</u>
Total noncurrent liabilities	<u>1,510,062</u>
Total liabilities	<u>4,986,866</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,077,922
Restricted for county roads	<u>6,348,185</u>
Total net assets	<u>\$ 60,426,107</u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
STATEMENT OF ACTIVITIES
For the year ended September 30, 2006

Program expenses	
Primary road routine and preventative maintenance	\$ 5,882,378
Local road routine and preventative maintenance	3,671,983
State trunkline	1,954,361
Net administrative	391,479
Reimbursable services	1,116,273
Interest on long-term debt	59,968
Total program expenses	<u>13,076,442</u>
Program revenues	
Charges for services	
Licenses and permits	56,198
Charges for services	2,811,386
Operating grants and contributions	
Michigan Transportation Funds	9,390,713
Investment earnings	329,033
Capital grants and contributions	
Federal grants	653,200
State grants	58,934
Contributions from local units	533,238
Total program revenues	<u>13,832,702</u>
Net program revenues	756,260
General revenues	
Gain on disposal of capital assets	15,868
Other	38,236
Total general revenues	<u>54,104</u>
Change in net assets	810,364
Net assets at October 1, 2005	<u>59,615,743</u>
Net assets at September 30, 2006	<u><u>\$ 60,426,107</u></u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission

BALANCE SHEET

September 30, 2006

	General Operations Fund
ASSETS	
Cash and investments	\$ 5,929,494
Receivables	
State trunkline maintenance	317,032
State Department of Transportation	
Michigan Transportation Fund	1,559,124
Other	46,603
Due on county road agreements	338,697
Other	61,607
Inventories	
Road materials	886,258
Equipment materials and parts	351,776
Prepaid items	205,610
Restricted assets	286,041
Total assets	<u>\$ 9,982,242</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 2,116,323
Accrued liabilities	61,450
Advances	
State trunkline	
Equipment purchase	247,061
Maintenance	141,545
Other	25,000
Deferred revenue - forest roads	460,425
Total liabilities	3,051,804
Fund balance	
Reserved for:	
Inventories	1,238,034
Prepaid items	205,610
Bridge construction	286,041
Unreserved	
Designated	816,128
Undesignated	4,384,625
Total fund balance	<u>6,930,438</u>
Total liabilities and fund balance	<u>\$ 9,982,242</u>

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
September 30, 2006

Total fund balance—governmental funds	\$	6,930,438
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 93,558,362	
Accumulated depreciation	<u>(38,156,354)</u>	55,402,008

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	35,903	
Accumulated amortization	<u>(7,180)</u>	28,723

Long-term liabilities in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds payable	(1,600,000)	
Unamortized bond premium	(10,127)	
Compensated absences	<u>(314,935)</u>	(1,925,062)

Accrued interest in governmental activities is not reported in the governmental funds.		<u>(10,000)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>60,426,107</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended September 30, 2006

	General Operations Fund
REVENUES	
Licenses and permits	\$ 56,198
Federal aid	653,200
State aid	9,449,647
Contributions from local units	533,238
Charges for services	2,811,386
Investment earnings	329,033
Other revenue	54,104
Total revenues	13,886,806
EXPENDITURES	
Public works	14,164,538
Capital outlay (net)	182,257
Debt service	263,500
Total expenditures	14,610,295
Net change in fund balance	(723,489)
Fund balance at October 1, 2005	7,653,927
Fund balance at September 30, 2006	\$ 6,930,438

The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**
For the year ended September 30, 2006

Net change in fund balance—total governmental funds	\$	(723,489)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful live, respectively.

Depreciation and amortization expense	\$ (3,203,914)	
Capital outlay	<u>4,562,502</u>	1,358,588

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Gain on sale of capital assets	15,867	
Net proceeds from sale of capital assets	<u>(19,161)</u>	(3,294)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of principal on long-term debt	200,000	
Amortization of bond premium	<u>2,532</u>	202,532

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.

1,000

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.

(24,973)

Change in net assets of governmental activities	\$	<u><u>810,364</u></u>
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The accompanying notes are an integral part of this statement.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Muskegon County Road Commission (Road Commission) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Road Commission's accounting policies are described below.

Reporting Entity

The Muskegon County Road Commission (Road Commission), which is established pursuant to the County Road Law (MCL 224.1), is governed by a three-member Board of County Commissioners appointed by the Muskegon County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the Muskegon County Board of Commissioners' approval.

The criteria established by the GASB Statement No. 14, *The Financial Reporting Entity*, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Muskegon County Road Commission, a discretely presented component unit of the County of Muskegon. No organizations meet this criteria for the Road Commission and therefore none are included in the financial statements.

The Road Commission General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission's General Operations Fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Road Commission. There are only governmental activities reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for the General Operations Fund (governmental fund). The General Operations Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as programs revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available, it is the Road Commission's policy to use restricted resources first.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Road Commission reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Road Commission intends to hold the investment until maturity.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Deposits and Investments—Continued

The Road Commission has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Road Commission to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Proceeds of the Road Commission's Michigan Transportation Fund Notes, Series 2004 are restricted for the construction of bridges. These amounts have been classified as restricted assets.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Schedule C equipment has no minimum cost. However, such assets are recorded at historical cost or estimated historical cost of purchase or construction. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets, the Road Commission chose to include all such items regardless of their acquisition date or amount. The Road Commission was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the Road Commission.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

<u>Assets</u>	<u>Years</u>
Building	25 - 50 years
Road equipment	5 - 8 years
Other equipment	4 - 20 years
Infrastructure - roads	8 - 30 years
Infrastructure - bridges	12 - 50 years

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

Road Commission employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the governmental fund type recognizes bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgetary procedures are established pursuant to Act 621 PA 1978, as amended, (MCL 141.421) which requires the commissioners to approve a budget for the General Operations Fund. Pursuant to the Act, the Road Commission follows these procedures in establishing the budgetary information provided in the financial statements:

- a. The director of financial services submits to the Board of Commissioners, a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

- b. A public hearing is conducted at the Road Commission to obtain public comments.
- c. Prior to September 30, the budget and annual appropriations are legally adopted by the Board of Commissioners.
- d. Formal budget integration is employed as a management control device during the year for the General Operations Fund.
- e. Budgets as presented are prepared on the modified accrual basis of accounting.
- f. Budgetary control is exercised at the category level.
- g. The budgetary information presented has been amended during the year by an official action of the Board of Commissioners.
- h. All budget appropriations lapse at year end.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Road Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Road Commission has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Road Commission does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Road Commission investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. As of September 30, 2006, \$6,605,024 of the Road Commission's bank balance of \$6,705,024 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Road Commission does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Road Commission is not authorized to invest in investments which have this type of risk.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
Capital assets, not being depreciated:				
Land and improvements	\$ 18,821,714	\$ 1,345,523	\$ -	\$ 20,167,237
Construction in progress	<u>339,096</u>	<u>198,072</u>	<u>336,711</u>	<u>200,457</u>
Total capital assets, not being depreciated	19,160,810	1,543,595	336,711	20,367,694
Capital assets, being depreciated:				
Buildings and improvements	3,896,421	-	-	3,896,421
Road equipment	8,428,804	907,135	366,231	8,969,708
Other equipment	2,900,363	66,100	6,736	2,959,727
Infrastructure and improvements	<u>55,099,552</u>	<u>2,382,342</u>	<u>117,082</u>	<u>57,364,812</u>
Total capital assets, being depreciated	70,325,140	3,355,577	490,049	73,190,668
Less accumulated depreciation:				
Buildings and improvements	2,041,757	134,964	-	2,176,721
Road equipment	7,226,822	548,493	366,231	7,409,084
Other equipment	1,526,223	104,265	3,480	1,627,008
Infrastructure and improvements	<u>24,648,024</u>	<u>2,412,599</u>	<u>117,082</u>	<u>26,943,541</u>
Total accumulated depreciation	<u>35,442,826</u>	<u>3,200,321</u>	<u>486,793</u>	<u>38,156,354</u>
Total capital assets, being depreciated, net	<u>34,882,314</u>	<u>155,256</u>	<u>3,256</u>	<u>35,034,314</u>
Capital assets, net	<u>\$ 54,043,124</u>	<u>\$ 1,698,851</u>	<u>\$ 339,967</u>	<u>\$ 55,402,008</u>

Depreciation

Depreciation expense has been charged to programs of the Road Commission as follows:

Primary road	\$ 2,261,734
Local road	816,747
State trunkline	94,695
Administrative	<u>27,145</u>
	<u>\$ 3,200,321</u>

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended September 30, 2006 was as follows:

	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
Issuance costs (10 years)	\$ 35,903	\$ -	\$ -	\$ 35,903
Less accumulated amortization	<u>(3,590)</u>	<u>(3,590)</u>	<u>-</u>	<u>(7,180)</u>
Bond issuance costs, net	<u>\$ 32,313</u>	<u>\$ (3,590)</u>	<u>\$ -</u>	<u>\$ 28,723</u>

Amortization

Amortization expense has been charged to interest.

NOTE F—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Road Commission for the year ended September 30, 2006:

	Balance October 1, 2005	Additions	Reductions	Balance September 30, 2006	Due within one year
Michigan Transportation Fund bond	\$ 1,812,659	\$ -	\$ 202,532	\$ 1,610,127	\$ 200,000
Compensated absences	<u>289,962</u>	<u>429,680</u>	<u>404,707</u>	<u>314,935</u>	<u>215,000</u>
Governmental activities long-term liabilities	<u>\$ 2,102,621</u>	<u>\$ 429,680</u>	<u>\$ 607,239</u>	<u>\$ 1,925,062</u>	<u>\$ 415,000</u>

\$2,000,000 Michigan Transportation Fund Notes,
Series 2004; due in annual installments of
\$200,000 through 2014; interest at 3% to 4%

\$ 1,600,000

Plus issuance premium

10,127

1,610,127

Compensated absences

314,935

\$ 1,925,062

The Michigan Transportation Fund bonds are backed by the full faith and credit of the Road Commission.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE F—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for the Michigan Transportation Fund bonds outstanding as of September 30, 2006 follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 200,000	\$ 57,500
2008	200,000	51,500
2009	200,000	45,000
2010	200,000	38,000
2011	200,000	31,000
2012-2014	<u>600,000</u>	<u>47,500</u>
	<u>\$ 1,600,000</u>	<u>\$ 270,500</u>

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Road Commission. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon County Road Commission
7700 East Apple Avenue
Muskegon, MI 49442

Funding Policy. Plan members are not required to contribute to the plan. The Road Commission is required to contribute at an actuarially-determined rate; the current rate is 9.33 to 47.55 percent of annual covered payroll depending on the Plan.

Annual Pension Cost. For the year ended September 30, 2006, the Road Commission's annual pension cost was approximately \$402,000 which was made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of December 31, 2004. The employer contribution rate has been determined using the entry age normal cost funding method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.5 percent to 12.9 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE G—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Three-Year Trend Information

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/04	\$ 303,000	100 %	\$ -
09/30/05	372,000	100	-
09/30/06	402,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

(Dollars amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/03	\$ 16,466	\$ 18,222	\$ (1,756)	90 %	\$ 3,564	49 %
12/31/04	16,576	19,176	(2,600)	86	3,583	73
12/31/05	16,629	19,817	(3,188)	84	3,632	88

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Road Commission employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE H—OTHER POST-EMPLOYMENT BENEFITS

In addition to pension benefits, the Road Commission extends medical insurance coverage to retirees. This employer-paid benefit is provided upon the employee completing ten consecutive years of service and meeting other eligibility requirements. Upon that attainment, the employee and eligible dependents, as applicable, are provided with medical insurance substantially equivalent to that provided to existing employees in their classification until they are eligible for federal Medicare coverage. After becoming eligible for Medicare coverage, the Road Commission provides a Medicare supplemental policy with prescription coverage to retirees. The Road Commission has sixty-two individuals, family groups receiving benefits. The benefits are financed by the Road Commission on a pay-as-you-go basis out the General Operations Fund. Current year claims for covered individuals under the self-insurance program were \$301,674.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE I—OTHER INFORMATION

Risk Management

The Road Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self-Insurance Pool (MCRCSIP), a trust fund established by the road commissions in the State of Michigan. The MCRCSIP is a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to MCRCSIP for its general liability coverage. The MCRCSIP is self-sustaining through member premiums and provides reinsurance through commercial companies for claims in excess of certain limits. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission manages its workers' compensation risk by participating in the County Road Association Self-Insurance Fund (CRASIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Road Commission pays an annual premium to CRASIF for its workers' compensation coverage. The CRASIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and carrying reinsurance through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Road Commission carries commercial insurance for underground storage tank systems.

The Road Commission self-insures for employees' health benefits and accounts for and finances its uninsured risk of loss in the General Operations Fund. Under this program, the Road Commission provides specific coverage for up to a maximum of \$75,000 per covered individual and certain aggregate coverage for the plan year. The Road Commission purchases commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

The Road Commission operates the self-insurance program on a pay-as-you-go basis. The claims liability of \$31,457 reported in the General Operations Fund at September 30, 2006, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in the funds claims liability amount in fiscal year 2006 and 2005 were as follows.

<u>Fiscal year ended September 30,</u>	<u>Balance at beginning of year</u>	<u>Current year claims and changes in estimates</u>	<u>Claims payments</u>	<u>Balance at end of year</u>
2006	\$ 33,387	\$ 588,657	\$ 590,587	\$ 31,457
2005	25,062	462,481	454,156	33,387

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE I—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

The Road Commission is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Road Commission's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Road Commission.

Commitments

The Road Commission has various contract agreements for road projects as of September 30, 2006 of approximately \$1,574,642.

NOTE J—LEASE COMMITMENTS

The Road Commission leases certain road equipment under operating leases. Lease expense for the year ended September 30, 2006 was \$121,916.

Minimum future lease commitments are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Amount</u>
2007	\$ 124,487
2008	67,665
2009	52,612
2010	32,722
	<u>\$ 277,486</u>

NOTE K—DESIGNATED FUND BALANCE

The Road Commission designates a portion of its Act 51 revenues realized from a 1996 gasoline tax increase for the purpose of local road improvement programs in the townships. The allocation of funds is based upon road mileage and population within each township.

Muskegon County Road Commission
NOTES TO FINANCIAL STATEMENTS—CONTINUED
September 30, 2006

NOTE L—FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2006, the federal aid received and expended by the Road Commission was \$653,200 for contracted projects and \$0 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

NOTE M—ECONOMIC DEPENDENCY

State of Michigan revenues represent 68 percent of General Operations Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Muskegon County Road Commission
Required Supplementary Information
SCHEDULE OF REVENUES
BUDGETARY COMPARISON SCHEDULE
General Operations Fund
For the year ended September 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
Licenses and permits				
Permits	\$ 40,000	\$ 70,000	\$ 56,198	\$ (13,802)
Federal aid				
Surface Transportation Program	1,403,296	898,296	653,200	(245,096)
State aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Urban road	1,300,000	1,300,000	1,308,177	8,177
Allocation	7,584,000	7,975,700	7,982,189	6,489
Snow removal	83,000	90,348	90,347	(1)
Economic development				
Rural primary	2,000	2,000	1,455	(545)
Forest road	60,000	60,000	55,472	(4,528)
Other - salt shed construction	2,000	2,000	2,007	7
Contributions from local units				
Townships	277,500	267,500	533,238	265,738
Charges for services				
State trunkline				
Maintenance	1,830,000	1,692,000	1,678,090	(13,910)
Nonmaintenance	70,000	65,000	64,277	(723)
Salvage sales	2,000	6,000	5,983	(17)
Other	250,000	1,174,000	1,063,036	(110,964)
Investment earnings	100,000	327,000	329,033	2,033
Other revenue				
Gain on disposal of capital assets	10,000	16,000	15,868	(132)
Other	8,000	40,000	38,236	(1,764)
Total revenues	13,031,796	13,995,844	\$ 13,886,806	\$ (109,038)
Fund balance at October 1, 2005	7,653,927	7,653,927		
Total budget	\$ 20,685,723	\$ 21,649,771		

Muskegon County Road Commission
Required Supplementary Information
SCHEDULE OF EXPENDITURES
BUDGETARY COMPARISON SCHEDULE
General Operations Fund
For the year ended September 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
Primary road				
Construction	\$ 1,560,000	\$ 1,445,000	\$ 1,301,711	\$ 143,289
Preservation/Structural Improvements	3,071,500	1,997,500	1,977,039	20,461
Routine and Preventive Maintenance	3,541,000	3,985,000	3,983,878	1,122
Local road				
Preservation/Structural Improvements	500,000	339,000	310,475	28,525
Routine and Preventive Maintenance	3,114,000	4,195,000	4,060,818	134,182
State trunkline				
Maintenance	1,835,700	1,904,700	1,890,085	14,615
Nonmaintenance	64,300	64,300	64,276	24
Equipment expenditures (net)				
Direct	1,450,000	1,379,000	1,339,438	39,562
Indirect	1,100,000	1,123,000	1,106,861	16,139
Operating	300,000	455,000	425,400	29,600
Less: Equipment rentals	(2,600,000)	(2,671,000)	(2,686,922)	15,922
Total equipment expenditures (net)	250,000	286,000	184,777	101,223
Administrative expenditures (net)				
Administrative expenditures	753,030	634,030	560,245	73,785
Less: Handling charges	(15,600)	(15,600)	(15,608)	8
Overhead - state	(153,000)	(153,000)	(153,123)	123
Other	(30)	(30)	(35)	5
Total administrative expenditures (net)	584,400	465,400	391,479	73,921
Capital outlay (net)				
Capital outlay	1,029,200	1,048,700	973,235	75,465
Less: Depreciation	(797,000)	(772,000)	(787,684)	15,684
Equipment retirements	(3,000)	(3,000)	(3,294)	294
Total capital outlay (net)	229,200	273,700	182,257	91,443
Debt service				
Principal	200,000	200,000	200,000	-
Interest and fees	63,500	63,500	63,500	-
Total expenditures	15,013,600	15,219,100	\$ 14,610,295	\$ 608,805
Fund balance at September 30, 2006	6,930,438	6,930,438		
Total budget	\$ 21,944,038	\$ 22,149,538		

OTHER SUPPLEMENTAL INFORMATION

Muskegon County Road Commission
ANALYSIS OF CHANGES IN FUND BALANCE
 General Operations Fund
 For the year ended September 30, 2006

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Total operating revenues	\$ 13,886,806	\$ 8,020,373	\$ 2,880,128	\$ 2,986,305
Total expenditures	<u>14,610,295</u>	<u>7,985,111</u>	<u>3,496,087</u>	<u>3,129,097</u>
Excess of revenues over (under) expenditures	(723,489)	35,262	(615,959)	(142,792)
OTHER FINANCING SOURCES (USES)				
Optional transfers in (out)	<u>-</u>	<u>(616,238)</u>	<u>616,238</u>	<u>-</u>
Net change in fund balance	(723,489)	(580,976)	279	(142,792)
Fund balance at October 1, 2005	<u>7,653,927</u>	<u>5,034,348</u>	<u>544,901</u>	<u>2,074,678</u>
Fund balance at September 30, 2006	<u><u>\$ 6,930,438</u></u>	<u><u>\$ 4,453,372</u></u>	<u><u>\$ 545,180</u></u>	<u><u>\$ 1,931,886</u></u>

Muskegon County Road Commission
ANALYSIS OF REVENUES
 General Operations Fund
 For the year ended September 30, 2006

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Licenses and permits				
Permits	\$ 56,198	\$ -	\$ -	\$ 56,198
Federal aid				
Surface Transportation Program	653,200	653,200	-	-
State aid				
Michigan Transportation Fund				
Engineering	10,000	7,291	2,709	-
Urban road	1,308,177	959,307	348,870	-
Allocation	7,982,189	5,814,618	2,167,571	-
Snow removal	90,347	65,872	24,475	-
Economic development				
Rural primary	1,455	1,455	-	-
Forest road	55,472	55,472	-	-
Other - salt shed construction	2,007	-	-	2,007
Contributions from local units				
Townships	533,238	222,269	310,969	-
Charges for services				
State trunkline				
Maintenance	1,678,090	-	-	1,678,090
Nonmaintenance	64,277	-	-	64,277
Salvage sales	5,983	-	-	5,983
Other	1,063,036	-	-	1,063,036
Investment earnings	329,033	216,405	23,427	89,201
Other revenue				
Gain on disposal of capital assets	15,868	10,436	1,130	4,302
Other	38,236	14,048	977	23,211
Total revenues	<u>\$ 13,886,806</u>	<u>\$ 8,020,373</u>	<u>\$ 2,880,128</u>	<u>\$ 2,986,305</u>

Muskegon County Road Commission
ANALYSIS OF EXPENDITURES
 General Operations Fund
 For the year ended September 30, 2006

	<u>Total</u>	<u>Primary Road</u>	<u>Local Road</u>	<u>County Road Commission</u>
Primary road				
Construction	\$ 1,301,711	\$ 1,301,711	\$ -	\$ -
Preservation/Structural Improvements	1,977,039	1,977,039	-	-
Routine and Preventive Maintenance	3,983,878	3,983,878	-	-
Local road				
Preservation/Structural Improvements	310,475	-	310,475	-
Routine and Preventive Maintenance	4,060,818	-	2,977,935	1,082,883
State trunkline				
Maintenance	1,890,085	-	-	1,890,085
Nonmaintenance	64,276	-	-	64,276
Equipment expenditures (net)	184,777	69,827	72,507	42,443
Administrative expenditures (net)	391,479	269,286	122,193	-
Capital outlay (net)	182,257	119,870	12,977	49,410
Debt service				
Principal	200,000	200,000	-	-
Interest and fees	63,500	63,500	-	-
Total expenditures	\$ <u>14,610,295</u>	\$ <u>7,985,111</u>	\$ <u>3,496,087</u>	\$ <u>3,129,097</u>